

Allowed expenses for gas utility ratemaking

SB 421 by Carriker (Cook)

DIGEST: SB 421 would have required use of the "stand alone" method of calculating rates charged by certain gas utilities, in which the utility's income and expenses (allowed expenses) are considered separately from any income or expenses incurred by its affiliates (disallowed expenses). Any income tax savings resulting from allowed expenses would have been included in the computation of tax expenses to reduce rates. Disallowed expenses and any associated tax savings would not have been used in the computation of income for ratemaking purposes.

GOVERNOR'S REASON FOR VETO: "This bill allows gas utility companies to include in the rate base federal income taxes that the companies may never pay. This rate base is used by the Railroad Commission to determine the prices the utilities may charge to their customers for natural gas. Current law leaves the decision of whether or not to include these taxes in the rate base to the Railroad Commission. A potential effect of this bill would be to increase the cost of gas to consumers.

"A similar provision was considered in another bill for electric and telephone utility companies. The legislature decided to defer a decision on this complex issue until an interim study can be conducted. Gas utility companies should be included in that same study."

RESPONSE: Sen. Steve Carriker, the author of SB 421, said, "The section of the bill that was controversial with the governor was put on in the House. I was not really involved with that. In conference there was a question of the germaneness of that amendment, but it was worked out so that the provision would be effective for two years only, while the question of treatment of gas utility income taxes was reviewed with other types of utilities. That was part of the governor's reasoning, that all utilities should be treated the same way. Gas utilities think there is some significant difference, but I am not well versed enough to comment."

NOTES: SB 421 was analyzed in Part One of the May 17 *Daily Floor Report*.